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The Democrat Plan for the Budget: Massive New Spending and Steep Tax Hikes

Executive Summary

- An analysis of the voting record and public statements indicate that, if Democrats controlled Congress, federal spending would rise to unprecedented levels, tax cuts would be repealed, and pay-as-you-go (PAYGO) would be reinstated.
- The combination of these policies would result not just in the reversal of recently enacted tax relief, but *also* steep tax increases for many Americans.
- Senate Democrats' voting record shows that they would prefer to increase spending throughout the government. In the cases when they have sought to offset increased spending, they have typically done so by proposing a tax increase.
  - For FY 2006, Democrats proposed an additional $95 billion in funding. Because most spending ends up in the baseline and subsequently increases at the rate of inflation, these amendments for FY06 would have resulted in over $500 billion in additional spending over five years.
  - For FY 2007, Democrats have already proposed 27 amendments to increase spending by $74.5 billion; however, Republicans successfully defeated all but two of these amendments.
- Democrats are quick to respond that they have a "plan" to offset their spending increases through PAYGO, a budget mechanism with an unproven track record.
  - PAYGO would hinder the extension of tax relief and institutionalize the Democrat strategy of increasing taxes to pay for increased spending.
- If Democrats controlled Congress, Americans can expect both increased taxes and resistance to efforts to permanently extend the 2001 and 2003 tax relief.
- The tax relief that the Republicans have provided over the last five years has spurred economic growth and kept money in the pockets of millions of taxpayers – trends that should continue.
- Republicans have fought against wasteful spending, proposed new budget process reforms, and minimized the tax burden of our nation's citizens. Until Democrats stop proposing excessive spending increases offset by tax hikes and start offering genuine reform, the Democrat plan is not worth considering.

Introduction

What is the Democrat plan for the budget? An analysis of the voting record and public statements indicate that, if Democrats controlled Congress, federal spending would rise to unprecedented levels, tax cuts would be repealed, and pay-as-you-go (PAYGO), a flawed budget tool in its old form, would be reinstated. The combination of these policies would result not just in the reversal of recently enacted tax relief, but *also* steep tax increases for many Americans. The tax relief that the Republicans have provided over the last five years has spurred economic growth and kept money in the pockets of millions of taxpayers – trends that should continue. However, Democrats, in conjunction with their spending and PAYGO practices, would likely block any and all attempts to make this relief permanent if they were to take control. More spending and higher taxes will hinder economic growth and negatively affect individual households and businesses.

Spending under Democrat Control

How much would a Democrat-controlled Congress spend? Assuming Democrats do not substantially change their past policy positions, an analysis of the voting record is a good indicator of future Democrat policies. That voting record shows that Democrats would increase spending throughout the government. To illustrate this prediction, this paper examines the dozens of amendments Senate Democrats have proposed, in the last three years alone, to increase spending.

109th Congress Spend-O-Meter

Since January 2004, the Senate RPC has been tracking Democrat efforts to increase spending in the form of a "Spend-O-Meter." The Spend-O-Meter tracks Democrat amendments that increase spending and receive a roll call vote. To be included on the Spend-O-Meter, an amendment must be sponsored by a Democrat and supported by a majority of Democrats. If an amendment includes spending for only one year, the Spend-O-Meter assumes the cost for five years because such spending increases are generally continued in future years.[1]

As of July 15, 2006, in the 109th Congress, Senate Democrats have proposed over $870 billion in new spending over five years.[2] That figure does not include potential amendments to 11 more appropriations bills which may be considered in the coming months. In each session, Congress seeks to pass a budget resolution and separate appropriations bills for the following fiscal year. While it is not yet possible to calculate the total amount of additional spending Democrats will propose this year because the 109th Congress has not completed FY07

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[1] In general, a one-year program is assumed to continue in the baseline budget estimate indefinitely. Per OMB guidance, current year budget estimates equal the enacted current year amounts and exclude proposed supplementals from the estimates. Because the vast majority of amendments proposed by Democrats are not supplemental spending, the spending resulting from the amendments will be assumed in the baseline in future years.
[2] *See* FY06 and FY07 Spend-O-Meter data below.

appropriations bills, Democrat amendments in the first session of this Congress provide ample insight into their spending proclivities.

In just the first session of the 109th Congress, Democrats proposed over $95 billion in additional spending for FY06. Because most spending ends up in the baseline and subsequently increases at the rate of inflation, these amendments for FY06 would have resulted in over $500 billion in additional spending over five years. Fortunately, Republicans defeated these amendments.

In almost all cases, Senate Democrats sought to increase funding for already generously funded programs *and* sought to pay for added spending through some form of tax hike. For example, during the Senate's consideration of the Department of Homeland Security's Appropriation bill for Fiscal Year 2006, Senator Christopher Dodd proposed an amendment that would raise the tax rate for individuals in the top tax bracket to add $16 billion for "first responder" programs.[3] The amendment ignored the fact that the Department of Homeland Security had already appropriated $14 billion for first responders, and, of that amount, only $6 billion had actually been spent. Even with $8 billion of unspent funds in this account, Democrats still proposed adding an additional $16 billion to the program. Fortunately, sound public policy prevailed and Republicans defeated this amendment by a vote of 36-60.[4] The table below lists all amendments included in the FY06 Spend-O-Meter.

FY06 Spend-O-Meter (in billions)

Date	SA #	Sponsor	Vote	Type[5]	Amendment	2006	2007	2008	2009	2010	5-year
FY06 Budget Resolution (S. Con. Res. 18)											
3/14/05	143	Bingaman	44-49	OTA	Education	4.8	4.8	4.9	5.0	5.1	24.6
3/15/05	147	Stabenow	46-54	OTA	First Responders	1.6	1.7	1.7	1.7	1.7	8.4
3/15/05	158	Byrd	46-52	OTA	Amtrak	1.0	1.1	1.1	1.1	1.1	5.4
3/15/05	149	Akaka	47-53	OTA	Veterans	2.8	2.9	2.9	3.0	3.0	14.7
3/15/05	172	Harkin	44-56	OTA	Education	1.4	1.5	1.5	1.6	1.7	7.7
3/16/05	202	Dayton	37-63	OTA	IDEA	13.0	13.8	14.7	15.7	16.7	73.9
3/16/05	211	Dorgan	45-55	OTA	Tribal Programs	1.0	1.0	1.0	1.1	1.1	5.2
3/17/05	239	Biden	45-55	OTA	COPS	1.0	1.0	1.0	1.1	1.1	5.2
3/17/05	240	Byrd	45-54	OTA	Transit/Highway	8.9	8.4	8.6	10.1	10.3	46.3
3/17/05	244	Clinton	47-53	OTA	Abortion/Contraception	0.1	0.1	0.1	0.1	0.1	0.5

3 Record Vote #177, March 17, 2005.
4 *See* floor speech by Senator Judd Gregg, Congressional Record, March 17, 2005 at p. S2940-1.
5 Type indicates the kind of vote. OTA represents "On the Amendment," or an up-or-down vote with a simple majority threshold. MTT represents "Motion to Table," or a vote to table the amendment with a simple majority threshold. MTW represents "Motion to Waive," or a vote to waive a budget point of order, which requires 60 votes.

FY06 Spend-O-Meter (in billions)											
Date	SA #	Sponsor	Vote	Type[6]	Amendment	2006	2007	2008	2009	2010	5-year
Emergency Supplemental (H.R. 1268)											
4/12/05	344	Murray	46-54	MTW	Veterans	1.9	2.0	2.0	2.0	2.1	10.1
Department of the Interior Appropriations (H.R. 2361)											
6/29/05	1025	Dorgan	47-51	OTA	Indian Health Care Services	1.0	1.0	1.0	1.1	1.1	5.2
CJS Appropriations (H.R. 2862)											
9/13/05	1661	Biden	41-56	OTA	COPS	1.0	1.0	1.0	1.1	1.1	5.2
9/14/05	1687	Stabenow	40-58	MTW	Interoperable Comm.	5.0	5.1	5.2	5.3	5.3	25.9
Defense Appropriations (H.R. 2863)											
10/5/05	1933	Bayh	56-43	MTW	Armored TWV	0.4	0.4	0.4	0.4	0.4	1.9
10/5/05	2033	Kerry	50-49	MTW	LIHEAP	3.1	3.2	3.2	3.3	3.3	16.0
10/5/05	1937	Stabenow	48-51	MTW	VA Healthcare	7.0	13.5	13.7	13.9	14.2	62.3
Homeland Security Appropriations (H.R. 2360)											
7/13/05	1202	Dodd	36-60	MTW	Emergency Personnel	16.1	16.4	16.7	16.9	17.2	83.3
7/13/05	1112	Akaka	42-55	MTW	Homeland Security	0.6	0.6	0.6	0.6	0.6	3.0
7/13/05	1189	Schumer	45-53	MTW	Air Cargo Security Program	0.3	0.3	0.3	0.3	0.3	1.6
7/13/05	1190	Schumer	45-53	MTW	Tracking Hazardous Materials	0.1	0.1	0.1	0.1	0.1	0.5
7/13/05	1217	Stabenow	35-63	MTW	Comm Equipment Grants	5.0	5.1	5.2	5.3	5.3	25.9
7/13/05	1218	Byrd	43-55	MTW	Rail Transportation	1.3	1.3	1.3	1.4	1.4	6.7
Transportation Appropriations (H.R. 3058)											
10/20/05	2077	Reed	53-46	MTW	LIHEAP	3.1	3.2	3.2	3.3	3.3	16.0
Labor, HHS, Education Appropriations (H.R. 3010)											
10/25/05	2213	Kennedy	48-51	MTW	Pell Grants	0.8	0.9	0.9	0.9	0.9	4.3
10/26/05	2275	Byrd	44-51	MTW	Title I	5.0	5.1	5.2	5.3	5.3	25.9
10/26/05	2292	Clinton	46-53	MTW	IDEA	4.0	4.0	4.1	4.2	4.2	20.5
10/26/05	2254	Dodd	47-52	MTW	Head start	0.2	0.2	0.2	0.2	0.2	0.8
10/26/05	2194	Reed	54-43	MTW	LIHEAP	2.9	3.0	3.0	3.1	3.1	15.1
10/27/05	2287	Boxer	41-56	MTW	After School Programs	0.5	0.5	0.5	0.5	0.6	2.7
Deficit Reduction Omnibus Reconciliation (S. 1932) (inflator not applied)											
11/3/05	2358	Cantwell	48-51	OTA	ANWR	0.0	0.0	2.0	0.0	0.5	2.5
11/3/05	2372	Murray	43-56	MTW	Medicaid	0.1	0.0	0.0	0.0	0.0	0.1
11/3/05	2348	Schumer	49-50	OTA	Medicaid	0.1	0.1	0.1	0.1	0.1	0.3

[6] Type indicates the kind of vote. OTA represents "On the Amendment," or an up-or-down vote with a simple majority threshold. MTT represents "Motion to Table," or a vote to table the amendment with a simple majority threshold. MTW represents "Motion to Waive," or a vote to waive a budget point of order, which requires 60 votes.

FY06 Spend-O-Meter (in billions)											
Date	SA #	Sponsor	Vote	Type[6]	Amendment	2006	2007	2008	2009	2010	5-year
11/3/05	2409	Reed	46-52	OTA	Targeted Case Management	0.0	0.1	0.2	0.2	0.2	0.8
11/3/05	2396	Reed	48-51	OTA	FHA	0.0	0.1	0.1	0.1	0.1	0.3
TOTAL (Using 1.7% for inflation)[7]						95.2	103.2	107.7	109.7	112.9	528.6

Note that, in the FY 2006 Budget Resolution alone, Democrats proposed ten amendments that would have increased spending by $36 billion and taxes by $24 billion over one year. For example, the Dayton Individuals with Disabilities Education Act (IDEA) amendment, proposed on March 16, 2005, would have increased taxes by $74 billion over five years to pay for education grants. The amendment ignores the fact that Congress had already increased funding for education grants for IDEA by over 74 percent, and the underlying budget resolution assumed another $500 million in FY06.[8]

For FY 2007, Democrats have already proposed 27 amendments to increase spending by $74.5 billion. Republicans successfully defeated all but two of these amendments, and, as noted above, the Spend-O-Meter does not include potential amendments on the remaining 11 appropriation bills. The year-to-date FY07 Spend-O-Meter follows.

FY07 Spend-O-Meter (in billions)											
Date	SA #	Sponsor	Vote	Type[9]	Amendment	2007	2008	2009	2010	2011	5-year
FY07 Budget Resolution (S. Con. Res. 18)											
3/14/06	3028	Kennedy	50-50	OTA	Education	6.3	6.4	6.5	6.7	6.8	32.7
3/14/06	3007	Akaka	46-54	OTA	Veterans	1.5	1.5	1.6	1.6	1.6	7.8
3/14/06	3039	Bingaman	46-54	OTA	Energy	4.0	4.1	4.2	4.3	4.3	20.9
3/15/06	3056	Stabenow	43-55	OTA	Interoperability	5.0	5.1	5.2	5.3	5.3	25.9
3/15/06	3054	Menendez	43-53	OTA	Port Security	1.0	1.0	1.0	1.0	1.0	5.0
3/15/06	3063	Murray	45-53	OTA	CDBG	1.3	1.3	1.3	1.4	1.4	6.7
3/15/06	3086	Byrd	44-53	OTA	Amtrak	0.6	0.6	0.6	0.6	0.6	2.8
3/15/06	3133	Conrad	44-55	OTA	Avian Flu	5.0	0.0	0.0	0.0	0.0	5.0
3/16/06	3034	Lieberman	43-53	OTA	DHS	8.0	8.1	8.3	8.4	8.5	41.3
3/16/06	3074	Reed	51-49	OTA	LIHEAP	3.3	3.4	3.4	3.5	3.5	17.2
3/16/06	3102	Dorgan	42-56	OTA	Tribal	1.0	1.0	1.0	1.1	1.1	5.2

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[7] Out-year estimates of these amendments are adjusted for anticipated inflation using an estimate of 1.7 percent.
[8] *See* Senator Judd Gregg, Congressional Record, March 17, 2005, p. S2941. "[The amendment] ignores the fact that this President has made a stronger commitment to IDEA than any President in history, especially in comparison to the prior President. This President has increased IDEA funding by 74 percent in his first 4 years in office, and he has made a commitment in this budget to add another $500 million in IDEA. It is obviously a classic tax-and-spend amendment, and I certainly hope my colleagues would defeat it."
[9] Type indicates the kind of vote. OTA represents "On the Amendment," or an up-or-down vote with a simple majority threshold. MTW represents "Motion to Waive," or a vote to waive a budget point of order, which requires 60 votes.

FY07 Spend-O-Meter (in billions)											
Date	**SA #**	**Sponsor**	**Vote**	**Type**[9]	**Amendment**	**2007**	**2008**	**2009**	**2010**	**2011**	**5-year**
3/16/06	3103	Sarbanes	48-49	OTA	Army Corps	2.9	3.0	3.0	3.1	3.1	15.1
3/1/6/06	3141	Stabenow	46-54	OTA	Veterans	6.9	16.8	23.0	28.4	33.8	108.8
3/16/06	3071	Akaka	49-51	OTA	Title I	3.0	3.1	3.1	3.2	3.2	15.5
3/16/06	3106	Lincoln	48-52	OTA	Ag	2.0	2.1	2.1	2.1	2.2	10.5
3/16/06	3143	Kerry	46-53	OTA	Tricare	0.7	8.0	2.4	3.0	3.7	17.8
3/16/06	3105	Boxer	43-57	OTA	Education	0.8	0.8	0.8	0.8	0.8	3.9
FY06 Emergency Supplemental (H.R. 4939)											
4/26/06	3604	Reid	44-54	OTA	Border Security	1.9	1.9	2.0	2.0	2.0	9.8
5/3/06	3688	Kennedy	53-46	OTA	Avian Flu	0.3	0.3	0.3	0.3	0.3	1.5
FY07 Homeland Security (H.R. 5441)											
7/12/06	4553	Biden	50-50	MTW	Rail Security Grants	1.1	1.1	1.1	1.2	1.2	5.7
7/12/06	4576	Clinton	47-53	MTW	DHS Grants	0.8	0.8	0.8	0.8	0.8	4.1
7/12/06	4587	Schumer	50-50	MTW	Transit Security	0.3	0.3	0.3	0.3	0.3	1.6
7/13/06	4641	Dodd	38-62	MTW	Increase Grants	16.5	16.8	17.1	17.4	17.7	82.5
7/13/06	4600	Schumer	46-54	MTW	Disaster Relief	0.3	0.3	0.3	0.3	0.3	1.5
INFLATOR TOTAL (Using 1.7% for inflation)[10]						74.5	87.7	89.3	96.4	103.6	342.0

To sum up, for FY 2006, Senate Democrats proposed $95.2 billion in increased spending, and so far for FY 2007, they have proposed an additional $74.5 billion. Adding this new funding to the baseline and projecting out five years (as is the convention), the five year cost of Democrat amendments in the 109th Congress would amount to more than $870 billion.

108th Congress Spend-O-Meter

The spending proposals of Senate Democrats so far for FY07 only affirm the Democrats' past spending patterns. In the second half of the 108th Congress (when the Senate RPC began tracking this information), Democrats proposed over $100 billion in new spending, which would have boosted spending by almost $500 billion over five years. For example, Democrats proposed 13 amendments to the FY05 Budget Resolution which would have increased spending by $69 billion over one year and over $339 billion over five years. In almost every case, proposed offsets came in the form of tax hikes. The Spend-O-Meter for the 2nd Session of the 108th Congress follows.

[10] Out-year estimates of these amendments are adjusted for anticipated inflation using an estimate of 1.7 percent.

FY05 Spend-O-Meter (in billions)											
Date	**SA #**	**Sponsor**	**Vote**	**Type**[11]	**Amendment**	**2005**	**2006**	**2007**	**2008**	**2009**	**5-year**
FY05 Budget Resolution (S. Con. Res. 95)											
3/9/04	2710	Daschle	44-53	OTA	Veterans Medical Care	2.7	2.7	2.8	2.8	2.9	14.0
3/10/04	2719	Murray	46-52	OTA	Education K-12	8.6	8.7	8.9	9.0	9.2	44.5
3/10/04	2745	Nelson	46-51	OTA	Veterans Medical Care	1.8	1.8	1.9	1.9	1.9	9.3
3/11/04	2783	Boxer	41-53	OTA	Outsourcing Reserve Fund	8.0	8.0	8.0	-	-	24.0
3/11/04	2789	Sarbanes	41-55	OTA	Firefighters & SAFER	1.4	1.4	1.4	1.5	1.5	7.2
3/11/04	2793	Dorgan	41-55	OTA	COPS	1.1	1.1	1.1	1.2	1.2	5.7
3/11/04	2799	Harkin	32-64	OTA	Healthcare	6.0	6.1	6.2	6.3	6.4	31.0
3/11/04	2803	Lincoln	43-53	OTA	Health insurance	12.0	12.2	12.4	12.6	12.8	62.1
3/11/04	2804	Byrd	43-53	OTA	Educ, Vets, DHS, etc	11.2	11.4	11.6	11.8	12.0	57.9
3/11/04	2807	Lieberman	40-57	OTA	Homeland Security	6.8	6.9	7.0	7.2	7.3	35.2
3/11/04	2725	Kennedy	44-53	OTA	Pell Grants	4.9	5.0	5.1	5.2	5.2	25.3
3/11/04	2774	Daschle	42-54	OTA	Indian Health Services	3.4	3.5	3.5	3.6	3.6	17.6
3/11/04	2762	Dodd	42-54	OTA	After School Programs	1.0	1.0	1.0	1.1	1.1	5.2
FSC/ETI (S. 1637)											
5/4/04	3109	Wyden	54-45	MTW	Trade Adjustment Assist.	4.0	4.0	5.0	5.0	4.0	22.0
5/4/04	3114	Cantwell	59-40	MTW	Unemployment Insurance	1.9	1.9	2.0	2.0	2.0	9.8
IDEA Authorization (S. 1248)											
5/12/04	3144	Harkin	56-41	MTW	Part B Funding	2.2	4.4	6.6	8.8	11.0	33.0
Defense Authorization (S. 2400)											
6/23/04	3303	Corzine	49-49	MTW	Military Retirement Age	1.7	1.7	1.8	1.8	1.8	8.8
FY05 DHS Approps (S.2537)											
9/8/04	3580	Schumer	50-46	MTW	Port Security	0.2	0.2	0.2	0.2	0.2	0.8
9/8/04	3597	Byrd	43-51	MTW	Various increases	2.0	2.0	2.1	2.1	2.1	10.3
9/9/04	3596	Murray	45-49	MTW	Port Security	3.0	3.1	3.1	3.2	3.2	15.5
9/9/04	3604	Dodd	46-45	MTT	First Responders	15.8	16.1	16.3	16.6	16.9	81.7
9/13/04	3617	Lautenberg	38-50	MTW	Coast Guard	0.1	0.1	0.1	0.1	0.1	0.5
9/14/04	3624	Mikulski	50-45	MTW	Firefighter Assistance	0.2	0.2	0.2	0.2	0.2	0.8

[11] Type indicates the kind of vote. OTA represents "On the Amendment," or an up-or-down vote with a simple majority threshold. MTW represents "Motion to Waive," or a vote to waive a budget point of order, which requires 60 votes. MTT represents "Motion to Table," or a vote to table the amendment with a simple majority threshold.

FY05 Spend-O-Meter (in billions)											
Date	SA #	Sponsor	Vote	Type[11]	Amendment	2005	2006	2007	2008	2009	5-year
9/14/04	3632	Clinton	44-50	MTW	Hi Threat Urban Areas	0.6	0.6	0.6	0.6	0.6	3.1
9/14/04	3649	Byrd	48-47	MTW	Various increases	-	0.5	-	-	-	0.5
9/14/04	3656	Schumer	43-51	MTW	Rail Security	0.4	0.4	0.4	0.4	0.4	1.8
9/14/04	3655	Schumer	44-49	MTW	US VISIT	0.4	0.4	0.4	0.4	0.4	1.8
TOTAL (Using 1.7 percent for inflation)[12]						101.2	105.4	109.6	105.3	108.1	473.6

Democrat Complaints about the Spend-O-Meter

Democrats have argued that Spend-O-Meter data is a "complete fabrication" because many Democrat amendments were offset, the Spend-O-Meter double counts, and it assumes one-year amendments continue in the future.[13]

First, while some Democrat amendments were "offset," these "offsets" came in the form of tax increases. Essentially, Democrats proposed to dig deeper in taxpayers' wallets to "offset" Democrat spending initiatives.

Second, while not giving any specific examples, Democrats contend that the Spend-O-Meter double-counts proposals because some of their spending amendments were for the same funding area, and, if an earlier amendment for the same funding area had been accepted, they would have never offered subsequent amendments.[14] Notwithstanding the fact that only a handful of amendments are in the same funding areas, this contention is highly dubious considering Democrats have proposed enormous spending increases to areas that have already seen significant funding increases, such as education (40 percent funding increase since 2001) and veterans (70 percent funding increase since 2001). Also, it is unclear that if Democrats did prevail in increasing spending in a certain area that they would not still seek additional spending increases.

Finally, Democrats argue that the Spend-O-Meter overstates the cost of proposed amendments by extrapolating one-year amendments into five-year amendments. As mentioned above, a conventional practice in budgeting is to assume a one-year spending increase continues in subsequent years. Thus, hoping to exploit this convention, Democrats frequently propose a one-year amendment knowing that it will likely continue in future years.

In seeking to undermine the veracity of the Spend-O-Meter, Democrats have offered few explanations regarding their spending increases and, if anything, have shown that when they talk about offsets, they in fact mean tax hikes.

[12] Out-year estimates of these amendments are adjusted for anticipated inflation using an estimate of 1.7 percent.
[13] *See* comments from Senator Kent Conrad, Congressional Record, November 1, 2006, p. S12116.
[14] *See* comments from Senator Kent Conrad, Congressional Record, November 1, 2006, p. S12116.

Pressure for Democrat Tax Increases: PAYGO

The Spend-O-Meter strongly suggests that if Democrats controlled the budget, spending would rise to record levels. But Democrats are quick to respond that they have a "plan" to offset their spending increases through PAYGO, a budget enforcement tool that would hinder the extension of tax relief and institutionalize the Democrat strategy of increasing taxes to pay for increased spending.

Senator Conrad has repeatedly stated that if he were Chairman of the Senate Budget Committee, he would reinstitute PAYGO, an old budget enforcement tool with an unproven track record.[15] Under PAYGO rules, any increase in spending or cut in taxes must be offset. If there are no proposed offsets, the President would be required to sequester mandatory funds to make up the difference. While PAYGO, in theory, sounds like an effective budget enforcement rule, PAYGO, in fact, makes extending tax cuts virtually impossible and does not impose any sort of ceiling on entitlement spending. PAYGO allows Democrats to argue that all of their new spending is offset, but, as shown in their voting record over the past two Congresses, these offsets are simply tax hikes. PAYGO simply supports an anti-tax-cut agenda unrelated to fiscal restraint.[16]

Supporters of PAYGO argue that the budget surpluses of the 1990s were due to PAYGO and that the enforcement tool restored fiscal discipline. This unproven claim ignores the fact that not a single sequestration action was ever invoked and that PAYGO had no effect on the core problem of the budget—the growth of mandatory spending.

The most troubling feature of PAYGO is that it hinders the extension of tax relief.[17] This is due largely to the technical aspects of how PAYGO interacts with the baseline rules. Under current scoring rules, mandatory spending programs are assumed to continue in the baseline. Thus, a bill simply to extend a mandatory program does not incur any PAYGO hurdles. However, under these same scoring rules, most revenue provisions which expire under current law are also assumed to expire in the baseline. Thus, a bill to extend a tax cut is subject to PAYGO rules while a similar bill to extend a mandatory program is not subject to the rules. PAYGO supporters want to stop the extension of current-law tax relief that is set to expire in 2010. A growing budget under a PAYGO regime means either a mandatory sequestration or tax hikes. This latter option is completely consistent with past Democrat proposals to offset

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[15] *See* transcript of remarks by Senator Kent Conrad at Press Conference Responding to Republican Budget Process Proposal, on June 14, 2006. Available at: http://budget.senate.gov/democratic/statements/2006/transcript_budgetprocessgopproposalspressconftransfull061406.pdf.

[16] *See* former Senator Don Nickles Testimony before the House Budget Committee, March 16, 2006. Available at: http://www.house.gov/budget/hearings/nicklesstmnt031606.pdf#search=%22don%20nickles%20house%20budget%20committee%20march%2016%22.

[17] *See* Senator Judd Gregg, Congressional Record, May 14, 2006, p. S2062.

spending programs with increased taxes. Democrats have rarely proposed to offset new spending with reductions in existing spending.

Senate Democrats Will Increase Taxes

If Democrats controlled Congress, Americans can expect both increased taxes and resistance to efforts to permanently extend the 2001 and 2003 tax relief.[18] Both consequences would likely cause economic hardship not only to the economy as a whole, but also to individual American taxpayers. Republicans justifiably are regarded as the party of tax relief, while the Democrats have by-and-large opposed such relief.

Democrats Opposed Tax Relief in 2001 and 2003

In 2001, H.R. 1836, the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) passed the Senate 58-33.[19] In 2003, H.R. 2, the Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA) passed the Senate 50-50 with Vice President Dick Cheney casting the deciding "yes" vote. Just two Democrats voted "yes."[20] Only *two* Democrats voted for both tax relief bills, and only *one* of the "Yes" Democrats is still in the Senate.[21] EGTRRA's and JGTRRA's provisions include the reduction of individual tax rates, family tax cuts (e.g., marriage penalty, child tax credit), education-savings incentives, retirement-savings provisions, lower rates on dividends and capital gains, the repeal of the death tax, bonus depreciation, individual Alternative Minimum Tax relief, and small business expensing.

Examples of Tax Increases that the Democrats have Recently Attempted

Over the past few years alone, Democrats have repeatedly tried to increase taxes. The following represent examples of recent proposals to raise taxes:

- Senator Jack Reed proposed Amendment #2737 to the Tax Relief Extension Reconciliation Act of 2005, H.R. 4297, which would repeal the section extending the capital gains and dividends tax rates.[22] The effect of this amendment would have been to raise taxes on over 23 million tax filers.[23]

[18] Public Law 107-16, enacted June 7, 2001 and Public Law 108-27, enacted May 28, 2003. The majority of provisions in the 2001 and 2003 tax bills expire in 2010.
[19] Ten Democrats voted YES: Max Baucus, Max Cleland, Diane Feinstein, Tim Johnson, Herb Kohl, Mary Landrieu, Blanche Lincoln, Zell Miller, Ben Nelson, and Robert Torricelli.
[20] Two Democrats voted YES: Zell Miller and Ben Nelson.
[21] Senator Ben Nelson.
[22] Record Vote No. 8, February 2, 2006.
[23] According to the Treasury's estimates, over 23 million tax filers will benefit from the lower dividends and capital gains. This number is likely much higher, because married couples and families are treated as a single tax filer for purposes of income tax returns.

- The lower rates on dividends and capital gains have played a significant role in helping the economy recover from the 2001 recession. The rates have lowered the cost of capital for American businesses, enabling them to invest in new equipment and create more jobs. Moreover, the Treasury Department data demonstrates that reductions in the capital gains tax rate lead to increases in federal tax revenues: from 2005 to 2006, tax receipts are projected to grow 11 percent ($246 billion).[24]

❖ Senator Tom Harkin has offered several amendments including Amendment #2665 to the Tax Relief Act of 2005, S. 2020, and Amendment #172 to the Senate Concurrent Budget Resolution for FY 2006, S. Con. Res. 18, that would reinstate the personal exemption phase-out (PEP) and phase-out of itemized deductions (Pease) taxes. PEP is the gradual elimination of personal exemptions for high income earners; whereas, Pease is the gradual elimination of itemized deductions for high income earners.[25]

- By reinstating these provisions, Senator Harkin proposed to effectively raise taxes by cutting back the benefits of the home mortgage deduction, state and local sales tax deduction, state and local property tax deduction, state and local income tax deduction, charitable deduction, theft and casualty loss deduction, and medical expense deduction.

❖ Senator Joe Biden proposed Amendment #3379 to the National Defense Authorization Act, S. 2400, which would raise the top individual tax rate by 1 percent to 36 percent.[26]

- Increasing the marginal tax rate would create a disparity between individual tax rates and corporate tax rates (maximum 35 percent), leading to new tax shelters to avoid paying the tax hike on individual income. In addition, a recent study found that a 1 percent increase in marginal tax

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[24] Budget of the U.S. Government, *Mid-Session Review Fiscal Year 2007*, July, 2006 at http://www.whitehouse.gov/omb/budget/fy2007/pdf/07msr.pdf#search=%22Mid%20Session%20Review%20July%2011%2C2006%22.

[25] Record Vote No. 346, November 17, 2005, and Record Vote No. 61, March 17, 2005. The PEP and Pease provisions were originally intended to be temporary. In 1993, President Clinton made them permanent. The 2001 tax bill provided for the elimination of the PEP and Pease provisions over a four-year period beginning in 2006. When the PEP provision was added to the tax code in 1988, a joint-filing taxpayer gradually lost their personal exemptions (e.g., the exemption for both spouses and any children) once their adjusted gross income reached $149,250. In 2006, the thresholds are $145,950 for single filers and $218,950 for joint filers. When Pease (named after the Ohio Democrat congressman who proposed it) was enacted in 1991, taxpayers with adjusted gross income above the applicable amount (then $100,000) began to lose up to 80 percent of their itemized deductions. Today, it applies to all taxpayers with adjusted gross income of $145,950 in 2005 (the threshold for married individuals filing separately is $71,350). For the tax year 2005, the Joint Committee on Taxation estimates that 6.7 million people will be subject to Pease.

[26] Record Vote No. 130, June 17, 2004.

rates <u>*cuts*</u> the life span of a small business by 32.5 percent for single filers and 44.8 percent for married filers.[27]

- Senators John Kerry and Diane Feinstein proposed Amendment #2610 to the Tax Relief Act of 2005, S. 2020, to raise the top individual tax rate to 39.6 percent for filers with incomes over $1 million, reinstate the PEP and Pease provisions (discussed above), and raise the dividends and capital gains taxes by 5 percent.[28]

    - Raising the marginal rates would hamper small businesses competitiveness. Overall, 43 percent of taxpayers in the top 20 percent income level have business income, twice the percentage of those in the middle income group. Of those taxpayers in the top 1 percent (those earning more than $300,000 and subject to the highest marginal tax rates), nearly three quarters have business income. And for taxpayers with incomes over $1 million per year, nearly 83 percent have business income.[29] Reinstating PEP and Pease would lead to unequal treatment of taxpayers similarly situated. Additionally, as noted above, more than 23 million tax filers are affected by the lower dividends and capital gains rates.

The above-mentioned examples show that Democrats have not been shy about proposing tax increases. While tax increases encapsulate the Democrats' *active* agenda, their *passive* inaction on making the 2001 and 2003 tax relief permanent is also cause for concern. The provisions that are in danger of expiring include: the 10-percent individual income tax bracket; reduction in individual income tax rates above the 15 percent rate bracket; reduction of marriage penalties, 15-percent rate bracket, and the earned income tax credit; increase in the child tax credit to $1,000; expansion of the partially refundable additional child tax credit; increase in the child and dependent care tax credit; simplification of the rules for determining income for the earned income tax credit; small business expensing; and lowering of the tax rate on capital gains and dividend income to 15 percent.

That Democrats are not committed to making the 2001 and 2003 tax relief permanent is evident by their own statements. Senate Minority Leader Harry Reid said, "I'm not really into cutting (spending) right now," and urged Republicans to abandon plans to make the 2001 and

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[27] SBA Office of Advocacy, *Taxes and Entrepreneurial Activity: An Empirical Investigation Using Longitudinal Tax Return Data*," March 2005 available at http://www.sba.gov/advo/research/rs252tot.pdf. "Newly released data show that in 2005, small businesses represented *99.7 percent* of all the nation's employer businesses. Data also show that they employed 57.4 million Americans or 50.6 percent of the non-farm private sector workforce," SBA press release, September 28, 2006 available at http://www.sba.gov/advo/press/06-17.html.

[28] Record Vote No. 333, November 17, 2005. The PEP and Pease provisions are fundamentally unfair in that they result in a personal exemption or itemized deduction having a different value for different taxpayers simply because of adjusted gross income. They are considered to be a "stealth tax," a tax that raises taxpayers' marginal rates beyond the stated rate.

[29] Tax Foundation, Countdown to Tax Reform, Part V: High Income Taxpayers and the Entrepreneurial Class, October 2005 available at http://www.taxfoundation.org/publications/printer/1134/html.

2003 tax cuts permanent.[30] Senator Kent Conrad proudly stated that he voted against $350 billion in tax relief over the past eleven years.[31] Senator Hillary Clinton said, "It takes the right tax system and the right investments…and right now we don't have either."[32] Senator John Kerry said we should "roll back part of George Bush's tax cut today."[33] In light of this clear resistance, there is no reason to trust that Democrats would make tax relief permanent. While Democrats may argue that they would "cherry pick" some of the provisions and make them permanent, the uncertainty of which provisions would be made permanent, versus which ones would lapse, causes tremendous uncertainty to taxpayers and the economy.[34]

Tax Relief Has Been Good for America

Low-Income & Middle-Income Families Have All Benefited, Not Just the Rich

Over the past few years, Senate Democrats have attempted to disguise their general preference for higher taxes by arguing that the tax relief of the past few years only benefits "the rich." Consider a few examples from this year alone:

> Again and again and again under the Republican President and this Republican Congress, they've [American people] seen trillions of their tax dollars given away in tax breaks to the wealthy and to corporations while the rest of America is asked to sacrifice.
>
> – Senator Ted Kennedy, Congressional Record, 2/13/06.

> It is obvious, I say to my friend, what the priority of this Republican Senate is, and the Republican House: to take care of the fat cats, the rich people. That's what it's all about.
>
> – Senator Harry Reid, Congressional Record, 8/01/06.

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[30] Kevin Hall and James Kuhnhenn, "Bush Vows to Repair Gulf Coast, Prompting Fears of Deficit Spending," *Knight Ridder*, November 17, 2005. Congressman Charles Rangel, ranking member of the House Ways and Means Committee and likely Chairman if the Democrats took over the House, stated that he "cannot think of one" of Bush's tax cuts that should be renewed. Ryan Donmoyer, "Rangel Vows Bipartisanship, Action on Trade as House Panel Head," *Bloomberg News*, September 20, 2006. He reiterated his message as recently as September 26, 2006 when he said, "I'm not picking and choosing...which of the president's tax cuts at this time should be renewed." And when asked whether tax increases to all income levels would be considered, he replied, "No question about it." Martin Vaughan, "Rangel: Everything On The Table To Blunt Impact Of AMT," *Congress Daily PM*, September 26, 2006.

[31] http://www.ontheissues.org/Economic/Kent_Conrad_Tax_Reform.htm.

[32] Senator Hillary Clinton, remarks before the Economic Club of Chicago's 78th Annual Dinner Meeting, April 11, 2006. She also said in her speech that she supports a return to PAYGO rules in Congress.

[33] NBC's "Meet the Press," January 30, 2005.

[34] During a Democrat budget press conference on September 27, 2006, Senator Kent Conrad said, "There may be some tax cuts that go to the wealthiest among us that are going to have to get trimmed because you know, we got to pay our bills" available at http://www.senate.gov/~budget/democratic/statements/2006/transcript_sprattpressconftrans092706.pdf.

> Well, we are safe in the bosom of the grand old party when all they can dream up are new ways to create debt by giving tax breaks to the wealthiest people in America.
>
> – Senator Dick Durbin, Congressional Record, 8/03/06

The reality is that *every* taxpayer who paid income taxes will get relief this year due to the tax cuts enacted by the Republican Congress. Consider the following Treasury Department data:

- A family of four earning $40,000 will receive average tax relief of $2,010 per year.
- More than 5 million individuals and families will see their income tax liabilities eliminated completely. In addition, low-income families will also benefit from provisions that make the child tax credit refundable for more families and reduce the marriage penalties.
- 44 million families with children will receive average tax relief of $2,493 per year.
- 14 million elderly individuals will receive average tax relief of $2,043 per year.
- 25 million small business owners will receive average tax relief of $3,641 per year.[35]
- Lower rates on dividends and capital gains continue to benefit taxpayers of all income levels, not just the wealthy: 36.3% of all taxpayers who reported qualified dividend income in 2003 had adjusted gross income (AGI) under $50k, while 34.7% of all taxpayers who reported long-term capital gains income in 2003 had AGI under $50k.

The following table illustrates the smaller tax bills that millions of Americans enjoy due to the 2001 and 2003 tax relief:

Figure 1: 2001 and 2003 Tax Relief Continue to Benefit Millions of Americans

		Specific Provisions of the Acts					
	Total Returns Benefiting from the 2001 & 2003 Tax Acts (thousands)	Total Returns Benefiting from the 10-Percent Bracket (thousands)	Total Returns Benefiting from the Lower Top Tax Rates (thousands)	Total Returns Benefiting from the Marriage-Penalty Relief (thousands)	Total Returns Benefiting from the Increased Child Tax Credit (thousands)	Total Returns Benefiting from the Lower Dividend & Capital-Gains Tax Rates (thousands)	Total Returns with Business Income Benefiting from the 2001 & 2003 Tax Acts (thousands)
United States	107,387	94,707	26,389	31,972	27,166	23,068	24,956
Alabama	1,503	1,288	280	454	443	281	334
Alaska	271	246	73	80	62	60	71
Arizona	1,961	1,727	453	594	514	407	420

[35] Source: Department of Treasury, Office of Tax Policy. The average tax rate for the bottom 50 percent of taxpayers will fall by 27 percent as compared to a 14-percent decline for taxpayers in the top 1 percent. Savings are in relation to the taxes that individuals would have had to pay if the 2001 and 2003 tax provisions were not in place.

	Total Returns Benefiting	10-Percent Bracket	Lower Top Tax Rates	Marriage-Penalty Relief	Child Tax Credit	Lower Dividend & Capital Gains	Total Returns w/ Business Income
Arkansas	883	759	140	281	254	161	211
California	12,658	11,079	3,554	3,630	3,050	2,893	3,265
Colorado	1,747	1,564	478	551	421	400	497
Connecticut	1,394	1,239	465	425	318	358	336
Delaware	331	297	90	97	83	73	63
Florida	6,553	5,717	1,442	1,815	1,636	1,337	1,541
Georgia	3,042	2,638	709	875	848	621	732
Hawaii	497	448	120	145	117	105	126
Idaho	474	418	81	168	130	93	138
Illinois	4,681	4,143	1,270	1,391	1,189	1,047	1,041
Indiana	2,295	2,057	494	740	612	471	484
Iowa	1,084	979	212	368	283	221	293
Kansas	986	879	207	332	260	206	253
Kentucky	1,387	1,221	257	453	371	272	310
Louisiana	1,441	1,229	261	396	424	259	322
Maine	500	449	95	158	124	100	135
Maryland	2,236	2,000	731	635	542	537	496
Massachusetts	2,564	2,299	821	751	553	633	632
Michigan	3,662	3,271	930	1,163	936	796	754
Minnesota	1,993	1,805	530	648	482	456	500
Montana	336	297	54	107	84	64	108
Mississippi	893	754	136	244	278	148	181
Missouri	2,066	1,834	429	651	541	418	460
North Carolina	3,034	2,645	623	927	846	601	711
North Dakota	242	219	41	79	60	48	76
Nebraska	650	584	127	214	168	132	173
Nevada	925	829	225	257	231	194	185
New Hampshire	536	486	147	174	127	125	130
New Jersey	3,416	3,004	1,138	1,015	811	858	749
New Mexico	642	559	124	183	171	121	145
New York	6,949	6,101	1,975	1,804	1,668	1,558	1,605
Ohio	4,427	3,991	1,047	1,214	1,032	902	883
Oklahoma	1,155	1,005	199	378	319	220	303
Oregon	1,299	1,157	292	414	325	274	336
Pennsylvania	4,676	4,185	1,106	1,443	1,160	1,002	943
Rhode Island	413	372	110	119	96	91	95
South Carolina	1,464	1,275	278	424	413	275	313
South Dakota	284	255	46	92	73	55	89
Tennessee	2,075	1,814	393	636	575	402	471
Texas	7,480	6,438	1,651	2,258	2,049	1,517	1,787
Utah	805	716	152	289	223	165	212
Vermont	247	224	53	76	58	52	72
Virginia	2,924	2,595	849	908	705	690	625
Washington	2,385	2,138	637	762	587	539	551
Wisconsin	2,114	1,946	496	697	536	459	465
West Virginia	582	510	94	199	156	110	111
Wyoming	195	176	42	65	50	41	56

Source: Department of Treasury. Data is based on tax returns filed in 2005. http://www.treas.gov/offices/tax-policy/library/tax_relief_kit.pdf.

Republican Tax Relief Has Made the Income Tax System More Progressive

As the figure below indicates, the tax system is even more progressive than before the 2001 and 2003 tax provisions were enacted. This means that the tax relief has shifted a larger share of the individual income taxes paid to higher income taxpayers. In 2006, the projected tax share for lower-income taxpayers will *fall*, while the tax share for higher-income taxpayers will *rise*, hardly indicative of a tax system that is biased against low-to-middle-income taxpayers.[36]

Who Pays Federal Income Taxes

Percentiles Ranked by Adjusted Gross Income (AGI)	**AGI Threshold**	**Percentage of Federal Personal Income Tax Paid**	
		With the Tax Cuts	Without the Tax Cuts
Top 1 percent	$341,773	32.4%	32.3%
Top 5 percent	$151,708	53.3%	51.6%
Top 10 percent	$111,528	65.7%	63.6%
Bottom 50 percent	< $33,705	3.4%	4.0%

Source: U.S. Department of Treasury, 2006 figures.

Inaction Will Lead to Tax Hikes for Every American Taxpayer

Since the Republican-led Congress passed pro-growth tax relief in 2001 and 2003, the economy has experienced strong economic growth:

- Economic growth has averaged more than 3.7 percent annually since the end of 2002.
- The economy has generated more than 5.7 million jobs since August 2003.
- At 4.8 percent, the unemployment rate remains below its average for the 1970s, 1980s, and 1990s.
- Real, after-tax incomes are 14 percent higher since December 2000.
- Household wealth is at an all-time high.[37]

However, all of the economic successes will be for naught if the tax relief is not made permanent. According to the Treasury Department, *all* American taxpayers will experience a tax increase if the 2001 and 2003 tax provisions are not made permanent. On average:

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[36] Source: Department of Treasury, Office of Tax Analysis. The top 1 percent of taxpayers will pay 32.4 percent of all the personal income taxes in 2006, while the bottom 50 percent will pay only 3.4 percent.
[37] Source: Department of Treasury, Office of Tax Policy.

- 115 million taxpayers will see a $1,716 increase.
- 84 million women will see a $1,970 increase.
- 48 million married couples will see a $2,726 increase.
- 42 million families with children will see a $2,084 increase.
- 12 million single women with children will see a $1,062 increase.
- 17 million seniors will see a $2,034 increase.
- 26 million small business owners will see a $3,637 increase.
- More than 5 million low-income individuals and couples will no longer be exempt from individual income tax.[38]

Republicans should be proud of the tax relief that they have provided for millions of American taxpayers. If the Democrats take control of the Senate, the American people will see increased taxes. The increased taxes will come in two forms: (1) entirely new tax increase proposals; and (2) tax increases as a result of allowing the 2001 and 2003 tax provisions to expire. Either option will affect the American taxpayer…negatively.

Republicans Continue to Pursue Fiscal Responsibility

Senate Republicans have proposed numerous solutions to address the budget deficit, both through separate bills and through a comprehensive reform package.[39] The Stop-Over-Spending Act (SOS), S.3521, represents the first significant effort to reform the federal and congressional budget process since the 1990 Budget Enforcement Act. The bill, co-sponsored by 28 Republican senators, includes many major reforms such as a presidential line-item veto, discretionary spending caps, automatic spending reduction mechanism, biennial budgeting, and the creation of a number of bipartisan commissions to address long-term problems.[40]

Perhaps the greatest budget victory in the 109th Congress is the Deficit Reduction Act of 2005, which curbed the growth of spending and saved taxpayers nearly $40 billion over five years. The law has slowed the pace of spending in both Medicare and Medicaid while ensuring Americans who rely on these programs continue to get the care they need. The law also included good government reforms such as giving flexibility to governors to improve Medicaid programs, expanding Medicaid benefits to 1 million more disabled children, and providing more grant aid

[38] Source: Department of Treasury, Office of Tax Policy. The tax increase figures assume that the following provisions of the President's tax relief expire in 2010: creation of the new 10-percent individual income tax bracket, reduction in individual income tax rates above the 15-percent rate bracket, reduction of the marriage penalties, 15-percent rate bracket, and the earned income tax credit, lowering the tax rate on capital gains and dividend income to 15 percent, increase in the child tax credit to $1,000, increase in the child and dependent care tax credit, and simplification of the rules for determining income for the earned income tax credit.
[39] Republican Senators have introduced numerous bills to reform the budget process. For example, Senators Domenici (S. 887) and Voinovich (S. 568) have introduced individual bills to move the budget to a biennial schedule. Senator Trent Lott introduced S. 2349, the Legislative Transparency and Accountability Act of 2006, a bill to improve earmark transparency. Additionally, two major reforms before the Senate are S. 1495 and S. 2265, both sponsored by Senator John McCain. Senator Chuck Hagel introduced S. 1889, a bill to establish a comprehensive entitlement reform commission to review Social Security, Medicare, and Medicaid, and make comprehensive recommendations to sustain the solvency and stability of these programs.
[40] For more information, *see* Committee Report of S. 3521, the Stop-Over-Spending Act of 2006.

to low-income college students. The Senate passed the bill, by a vote of 52-47, on November 3, 2005 and it was signed into law on February 8, 2006.

Conclusion

With increased spending and an old-fashioned PAYGO regime, Democrats would force Congress to repeal recently enacted tax relief. The Democrat plan to expand the budget will be paid for by digging deep into taxpayers' wallets. On the other hand, Republicans have fought against wasteful spending, proposed new budget process reforms, and minimized the tax burden of our nation's citizens. Until Democrats stop proposing excessive spending increases offset by tax hikes and start offering genuine reform, the Democrat plan is not worth considering.